

SLOUGH BOROUGH COUNCIL

REPORT TO: Cabinet **DATE:** 10th February 2014

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WARD(S): All

PORTFOLIO: Cllr. Rob Anderson; Lead Commissioner for Finance & Strategy

PART I **KEY DECISION**

TREASURY MANAGEMENT STRATEGY 2014-15

1 Purpose of Report

The Treasury management strategy (TNMS) is a requirement of the council's reporting procedures and recommended by both the Chartered Institute of Public Finance and Accountancy (CIPFA) code of practice on treasury management and the CIPFA prudential code for capital finance in local authorities. The council is required to comply with both codes through regulations issued under the Local Government Act 2003.

2 Recommendation

Members are asked to Recommend approval of the Treasury Management Strategy for 2014/15 to Council.

3 Slough Joint Wellbeing Strategy

3.1 SJWS Priorities

The report indirectly supports all of the strategic priorities and cross cutting themes. The maintenance of good governance within the Council to ensure that it is efficient, effective and economic in everything it does is achieved through the improvement of corporate governance and democracy by ensuring effective management practice is in place.

3.2 Corporate Plan 2014/15

The report helps achieve the Corporate Plan objectives by detailing how the Council has performed against its priority outcomes, as evidenced in the Treasury Management activity report.

4 Other Implications

4.1 Financial

The Financial implications are contained within this report.

4.2 Risk Management

Risk	Mitigating action	Opportunities
Legal	None	None
Property	None	None
Human Rights	None	None
Health and Safety	None	None
Employment Issues	None	None
Equalities Issues	None	None
Community Support	None	none
Communications	None	none
Community Safety	None	None
Financial; Detailed in the report and above	As identified	None
Timetable for delivery; A number of capital projects have been reprofiled into the 2013-14 financial year	None	None
Project Capacity	None	None
Other	None	None

4.2.1 Human Rights Act and Other Legal Implications

None identified

4.2.2 Equalities Impact Assessment)

No identified need for the completion of an EIA.

Executive Report

5 Introduction and Background

5.1 The Treasury Management Strategy for 2014/15 is required to manage £285m of treasury risk. The council's treasury policy is set out in Appendix 1 of this report. The Treasury management Strategy complies with the requirements set out in the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management, which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming financial year.

5.2 In addition to reporting on risk management related to treasury activities, the Treasury Management Code also requires the Authority to report on any financial instruments entered into to manage treasury risks.

6. Key Principles

6.1 The medium term capital finance budget is a key part of the council's budget strategy. When setting the Treasury management strategy the Council has considered

- The current treasury position and debt portfolio position
- The prospects for interest rates
- The current approved capital programme
- Limits on treasury management activities and prudential indicators

6.2 It is a statutory requirement that the level of borrowing is kept under review and is affordable

7. Service Delivery and Performance Issues

7.1 Current Economic Climate

7.1.1 Appendix A to the attached strategy includes a detailed view on interest rates. Interest rates are expected to remain low until the recovery is convincing and sustainable. The Bank Rate, currently 0.5%, is expected to remain at this level until late 2016.

7.2 Current Position

7.2.1 The Council currently has £182.4m of borrowing and £103.0m of investments. The underlying need to borrow is measured by the Capital Financing Requirement (CFR) while usable reserves are the underlying resources available for investment. The current strategy is to maintain borrowing and investments below their underlying levels subject to holding the minimum investment balance of £50m.

7.2.2 CIPFA's prudential code for Capital Finance in Local Authorities recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. The Council expects to comply with this recommendation during 2014/15.

7.3 Borrowing Strategy

7.3.1 The Council currently holds £182.4m of loans. This is a decrease on previous years as a result of the strategy for funding previous year's capital programmes. Further borrowing is planned in 2014/15 to fund capital projects included within the current capital programme.

7.3.2 The Council's chief objective when borrowing money is to strike an appropriately low risk between securing low interest costs and achieving cost certainty. The aim is for affordability without compromising the longer term stability of the debt portfolio.

7.3.3 The benefits of internal borrowing will continue to be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long term borrowing rates are forecast to rise.

7.3.4 The Council does hold £13m of LOBO (Lender's Option Borrowers Option) loans where the lender has the option to propose an increase in the interest rate

at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. £4m of these LOBOS have options during 2014/15 and the Council will take the option to repay at no cost if it has the opportunity to do so.

7.4 Investment Strategy

7.4.1 The Council will invest its funds prudently and have regard to the security and liquidity of its investments before seeking the highest rate of return.

7.4.2 The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk receiving unsuitably low investment income.

7.4.3 Investments will make reference to the core balance, cash flow requirements and the outlook for short and medium term interest rates.

7.4.4 The Council will invest its surplus funds with any of the counterparties shown in table 3 of the TMS, subject to the cash and time limits shown.

7.4.5 The council will consider, but not solely rely on, the rating opinion of all three major rating agencies (where available) nor will it be bound by the agency with the lowest rating.

7.5 Treasury Indicators within the Prudential Code and the Treasury management code

7.5.1 The indicators cover 2014/15 – 2016/17. The CIPFA Prudential Code and the TM Code require authorities to set treasury indicators and these are set out in sections 11 and 13 of the Treasury Management Strategy. There are likely to be no breaches in the indicators 2014/15.

7.6 Minimum Revenue Provision (the MRP)

7.6.1 The proposed MRP policy statement 2014/15 is set out in section 12 of the TMS

7.7 Future Options

7.7.1 CLG guidance and the CIPFA code do not prescribe any particular treasury management strategy for local authorities to adopt. The recommended TMS, including the Treasury Prudential Indicators will provide sufficient flexibility for the Director of Finance to manage the Council's loan debt effectively in 2014/15. There are some alternative strategies that have been included within the strategy that may help to contribute to a more effective operation of treasury activities and help towards the financial standing of the council. They are shown in section 13 of the TMS.

7.8 Policy on the use of external service providers

7.8.1 The council uses Arlingclose as its external treasury advisor but responsibility for treasury management decisions remains with this council at all times.

8 **Appendices Attached (if any)**

'A' - Treasury Management Strategy 2014/15

9 **Background Papers**

CIPFA – Treasury management in the public services – code of practice and guide for chief financial officers

CIPFA Prudential code for local authority capital finance

Arlingclose Ltd. UK economic forecasts

Local Government Act 2003